R4105-6A

The Conference Board

Volume 14, Number 7 July 1992

International Economic Scoreboard™

INSIDE:

- **Global Cycle a Bit Fuzzy**
- **Another Plunge for Japanese Leading Index**
- **English-Speaking Countries Slow on the Upswing**
- **Inflation Story Favorable**

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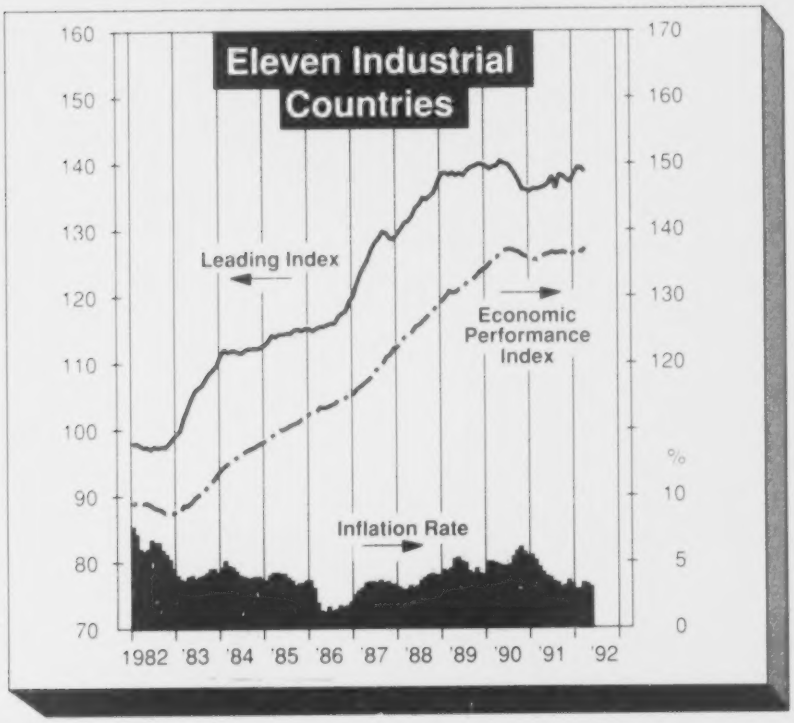
World Business Cycle



Summary of Growth Rates, Eleven Industrial Countries

	Ten-year Growth Rate 1976-86	Indexes of Economic Performance Growth Rates * 6 mos. ago	3 mos. ago	Latest month	Leading Business Cycle Indexes Growth Rates * 6 mos. ago	3 mos. ago	Latest month	Current Reading on the Cycle	Latest Month Covered
Eleven countries	3	1	1	1	2	2	1	Recovery stalled, leaders weak	Apr.
Ten countries (U.S. excl.)	3	2	2	2	-2	-2	-3	Expansion stalled, leaders weak	Apr.
North America (2)	3	-1	-1	0	7	7	6	Recovery underway	Apr.
Europe (4)	2	1	1	2	1	1	2	Expansion continuing	Apr.
Pacific Region (5)	4	3	3	2	-5	-6	-8	Expansion stalled, leaders weak	Apr.
United States	3	-1	0	0	7	8	6	Recovery underway	May
Canada	3	0	0	-1	0	0	-1	Recovery stalled, leaders weak	Apr.
West Germany	2	1	1	0	-1	0	1	Expansion stopped, leaders weak	Apr.
France	2	4	2	3	3	1	3	Expansion continuing	Apr.
United Kingdom	2	-4	-3	-1	0	0	2	Recession continuing, leaders improving	Apr.
Italy	2	2	2	4	0	1	0	Expansion resuming, leaders weak	Feb./Apr.
Japan	4	4	3	1	-7	-8	-11	Expansion stalled, leaders weak	Apr.
Korea, R.O.K.	7	5	6	3	6	1	0	Expansion slowing, leaders weak	May
Australia	3	-5	0	0	0	3	4	Recession ending, leaders improving	May
New Zealand	2	-1	0	2	5	8	8	Recovery underway, leaders improving	Mar./Apr.
Taiwan, R.O.C.	8	6	8	6	8	8	6	Expansion continuing	Apr.

* Ratio of current month's index over the preceding 12 month average, expressed as a compound annual rate.

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The Conference Board, 845 Third Avenue, New York, New York, 10022
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Overview

Cyclical Ambivalence

The shape of the global business cycle seems a little fuzzy these days. Yes, there was a clear downturn in both indexes back in 1990. And yes, the 11-nation leading index has a gentle uptilt to it over the past year, and the same can be said—except even more modestly—for the performance index. But neither index looks like a real recovery is underway.

In fact, that ambivalence about a cyclical recovery is an accurate reading of the current situation. First, there never is a single global cycle in the sense of all industrial nations moving into expansions and contractions simultaneously. Second, the Big Three are almost completely out of synch this time, with the United States embarked upon a weak recovery, Japan in the slowdown or contraction phase of the cycle, and Germany—well, for Germany your guess is as good as ours.

One aspect of the global economy in the 1990s is that, with only a few exceptions, inflation slowed noticeably in 1991 and has leveled off at a not-alarming 3 percent rate in the first half of 1992. At the latest readings, we have four countries-Japan, Canada, Australia and New Zealand-with inflation below 2 percent, and no country with an inflation rate above 6 percent. By the standards of recent years, that's a highly favorable report.

Summary of Inflation Rates, Eleven Industrial Countries

	Ten-year Inflation Rate 1979-89	*6 mos.* ago*	*3 mos.* ago*	*Latest* month*	*Current Reading on Inflation*	*Latest Month Covered*
		annual rates, percent				
Eleven countries	5.3	3.6	2.9	3.1	Steady	May
Ten countries (U.S. excl.)	5.2	3.9	3.1	3.2	Steady	May
North America (2)	5.6	3.2	2.7	2.9	Steady	May
Europe (4)	6.6	4.6	4.1	4.2	Steady	May
Pacific Region (5)	3.4	3.4	2.3	2.3	Falling	May
United States	5.5	3.0	3.5	3.2	Steady	June
Canada	6.5	2.8	0.9	1.1	Low but Volatile	May
West Germany	2.9	4.8	4.1	4.0	Falling	May
France	7.3	3.0	3.2	3.0	Steady	Apr.
United Kingdom	7.3	4.2	4.0	4.3	Steady	May
Italy	11.2	5.8	5.2	5.4	Steady	June
Japan	2.5	3.2	1.9	1.9	Low and Falling	May
Korea, R.O.K.	8.1	8.2	6.4	5.8	Falling	June
Australia	8.4	1.8	2.0	1.9	Low and Steady	Feb.
New Zealand	11.8	1.4	0.2	1.1	Low but Volatile	Feb.
Taiwan, R.O.C.	4.4	5.5	5.8	5.8	Steady	May

* Ratio of current month's index over the preceding 12 month average, expressed as a compound annual rate.

Japan's Falling Stock Market—Will It Sabotage Ours?

by
George L. Perry

Do stock markets in different countries influence one another? These days the question is not an academic one for American investors. For several years through 1989, Japanese stock prices soared beyond any levels that experience with Western markets would have predicted. They have fallen since then, with only a few sharp upswings along the way. As of mid-July, the broad Nikkei average was less than half its peak value, and many individual stocks have fared much worse. It remains to be seen whether the stock price decline contributes to a slump in the real economy of Japan—perhaps by impairing the lending capacity of banks and insurance companies with huge losses in their stock portfolios.

One sign that the worst may be over is that optimistic U.S. investors, using conventional valuation measures, believe Japan's stocks have reached bargain levels. But this judgment is chancy, both because it rests on nearly impenetrable Japanese accounting and institutional practices and because markets often overshoot the levels dictated by economic fundamentals even when these are readily understood. (Wall Street, by the way, has a maxim warning those who think they can find the bottom of a slide like the Tokyo market's: Don't try to catch a falling knife.")

More pessimistic investors worry that the collapse in the Japanese market could spread to the United States. Supporting this fear are studies that have found positive correlations among the movements of markets in different countries. The main changes in Japanese fundamentals over the past few years, however, have been distinctly their own. One big change was in interest rates. The pre-1989 runup in the prices of Japanese stocks (and land) came in part from the extraordinarily low interest rates maintained throughout most of the 1980s by the Bank of Japan. Starting in late 1989 a new central bank chairman let Japanese rates rise until they were more nearly in line with those in other industrial nations—in large part to head off still further runups in asset prices. The new rates were hardly draconian. But they were a big change from the near-zero real rates of the 1980s, and they contributed directly to the steep decline in stock prices by putting a bigger discount on future earnings of firms.

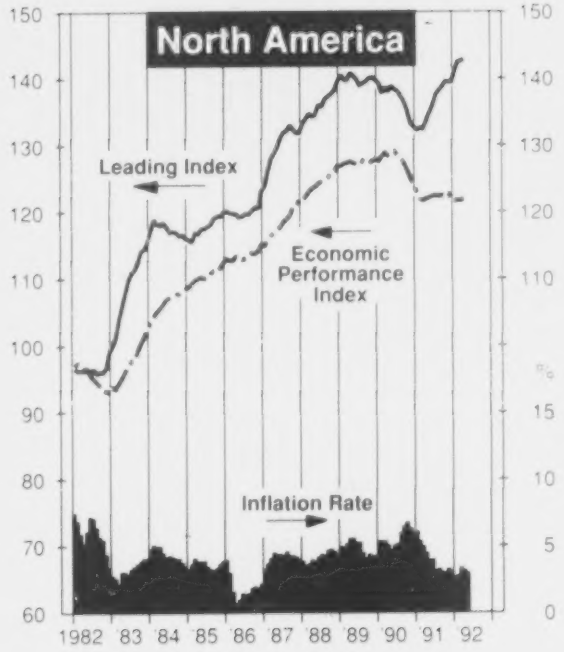
A second change in fundamentals followed the interest rate change. Part of the stunning success of Japanese manufacturing in the 1980s had come from the low cost of capital. As Japanese firms began to confront borrowing costs and price-earnings multiples much more like those in the West, they lost the big competitive edge that low capital costs had provided them. For this reason, and because of growing Western political resistance to Japanese trade practices, analysts have lowered projected sales and earnings of Japanese firms.

Thus the drop in Japanese stock prices was associated both with lower projected future earnings and with a higher discount rate applied to those future earnings. Neither change has a parallel in the U.S. economy. If anything, U.S. interest rates and growth prospects have moved in opposite directions to Japan's. So there is no basis for similar stock price movements based on similar changes in fundamentals.

Pure price contagion, the second possible source of correlation, seems dubious in general and is especially unlikely when one market's investors are a relatively small factor in the other market. And despite frequent assertions to the contrary, we have not become dependent on Japanese investment dollars. In the peak year, 1987 Japanese investors made net purchases of $11 billion of U.S. stocks. Since then, their net purchases have averaged about $1 billion a year. This activity is dwarfed by inflows to U.S. stock mutual funds, which came to $20 billion in the first quarter of this year alone.

So the U.S. market is no more likely to be pulled down by Japan's via contagion than it is through common fundamentals. If we get a major decline in stock prices here in the United States, it will be homegrown, not made in Japan.

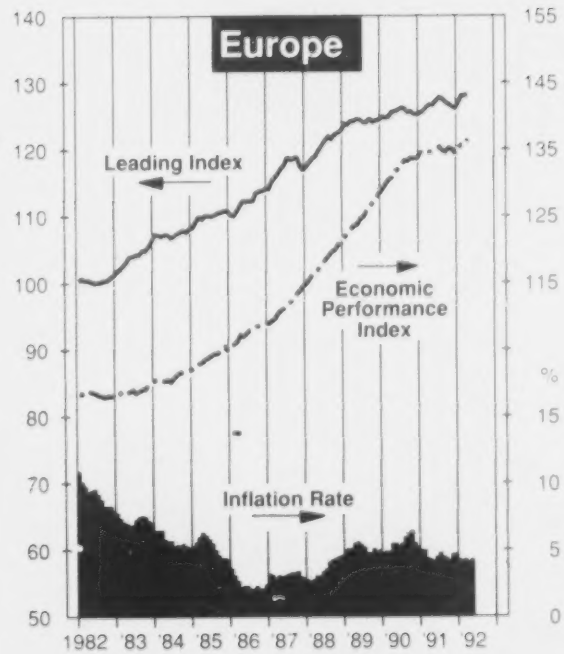
Excerpted from The Brookings Review, Summer 1992. George L. Perry is a senior fellow in the Brookings Economic Studies program and co-editor of its journal, Brookings Papers on Economic Activity.

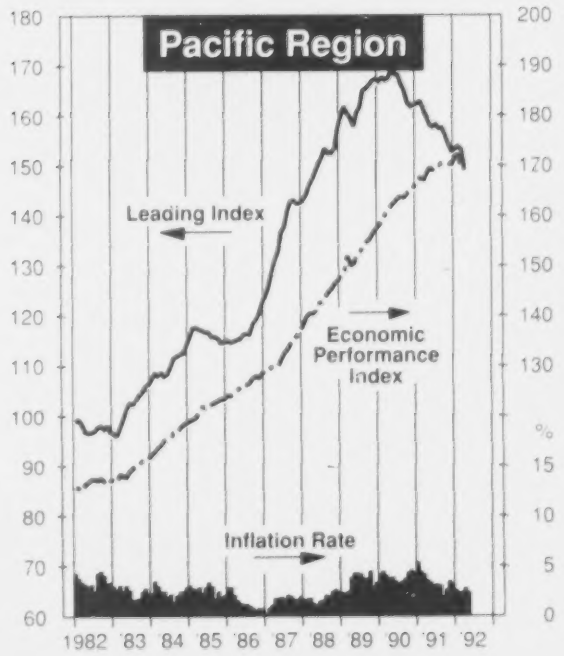


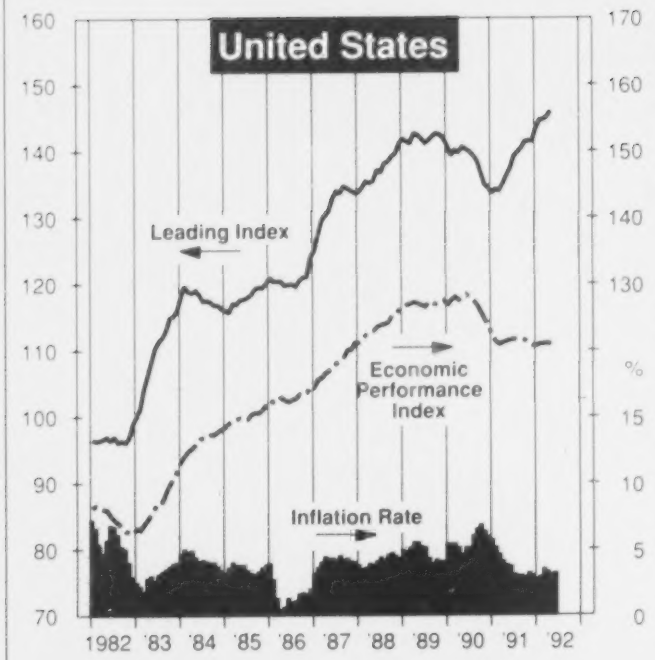
Mixed Bag

The widely different cyclical patterns of the major industrial nations are clearly visible in the regional indexes charted on this page. In North America, dominated by the United States, the economic upswing that is clearly signaled by the leading index is having a very hard time getting started. In the Pacific Region, dominated by Japan, growth has slowed way down but the plunge in the leading index has not—at least not yet—led to an actual downturn in economic activity. And in Europe, both indexes show a slowing of the expansion, but no contraction has been signaled.

Although the business cycle is not in synch around the world, the improvement in the inflation picture is clearly visible in all three regions. The Pacific Region, where the average increase in prices has slowed to 2.3 percent, down a full point from a year ago, has the best record. North America is doing pretty well also, at 2.9 percent, also down a percentage point from a year ago. Europe, which shows the fewest signs of a business cycle, also shows the least progress on inflation. Its rate is 4.2 percent at last report, down from late 1990 when the surge in oil prices boosted inflation, but essentially unchanged from 12 months ago.





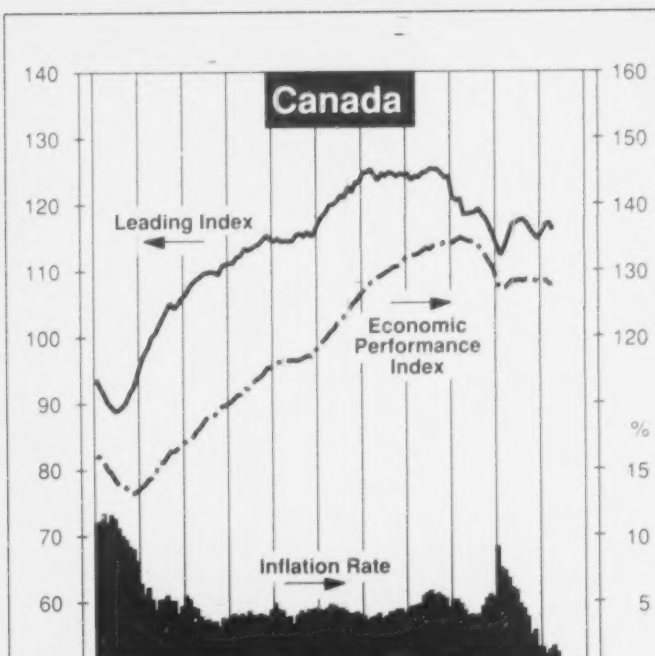


The Enigma Persists

The enigmatic pattern of the two U.S. cyclical indexes persists. The leading index continues to rise quite nicely, pointing toward cyclical recovery. Yet the performance index goes nowhere.

This pattern is repeated (in a rough way) in the other English-speaking countries—Canada, the United Kingdom, Australia and New Zealand. In each case, the leading index suggests that by now somewhat more cyclical recovery should have taken place than the economy has in fact delivered. If there is a common reason for this, it has not revealed itself.

The U.S. inflation rate, 3.2 percent, has been generally stable for almost a year.

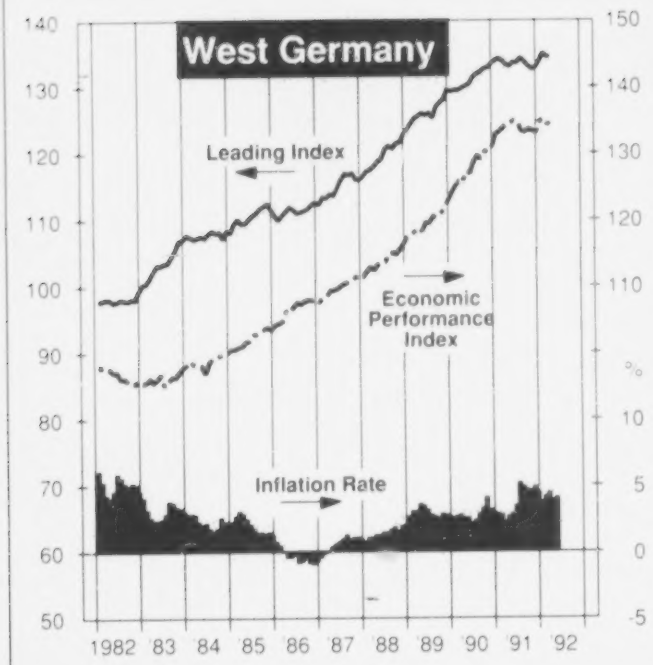


Going Nowhere

The Canadian performance index has been flat for over a year now. Unemployment, around 11 percent, has been particularly weak. The leading index has fluctuated erratically, not really getting anywhere.

Both indexes, then, are in line with the consensus forecast for Canada in 1992, which calls for very modest economic growth—in the range of 1-2 percent. Inflation continues to be very well behaved.

The constitutional debate in the country and Quebec's referendum in October are a continuing source of uncertainty for economic planning.

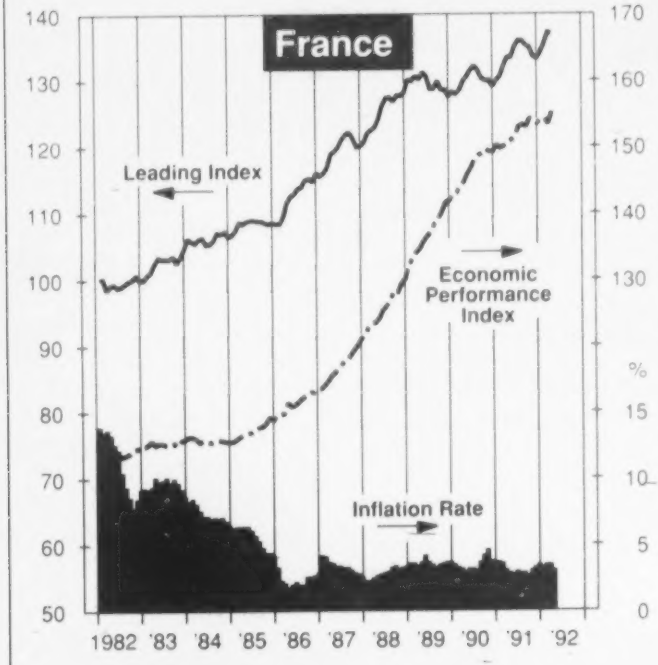


Inflation Worries Persist

Both West German indexes have been generally flat over the past year with a very slight upward tilt. No clear movement of the economy is indicated, in either direction.

Inflation has been improving very slowly recently, but is still worrisomely high. In addition, money growth is well above its targets. As part of the fight against inflation, the Bundesbank recently raised the discount rate from 8 to 8-3/4 percent. This pushed the D-mark still higher against the dollar, making it tougher for German companies to compete against American producers in world markets.

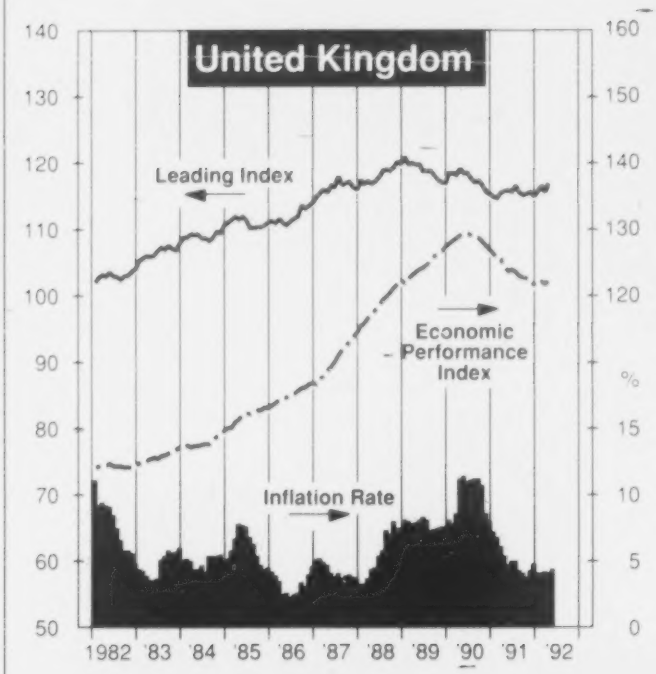
On the other main policy front, the German government would like to rein in the budget deficit, but the task is even more difficult than usual in light of the needs in the eastern part of the country.



A Positive View

The French economy looks positive. Both indexes are advancing—not vigorously but fairly steadily. Inflation has been stable around 3 percent.

GDP growth is expected to be about 2 percent this year, boosted by rising exports. One sour note in the economy is an unemployment rate that reached 10 percent in April. A more encouraging statistic is the fiscal deficit of about 2.2 percent of GDP, the lowest among the large European countries.



Still Down

The British economy still appears to be on the downside of the business cycle. Unemployment has been particularly weak.

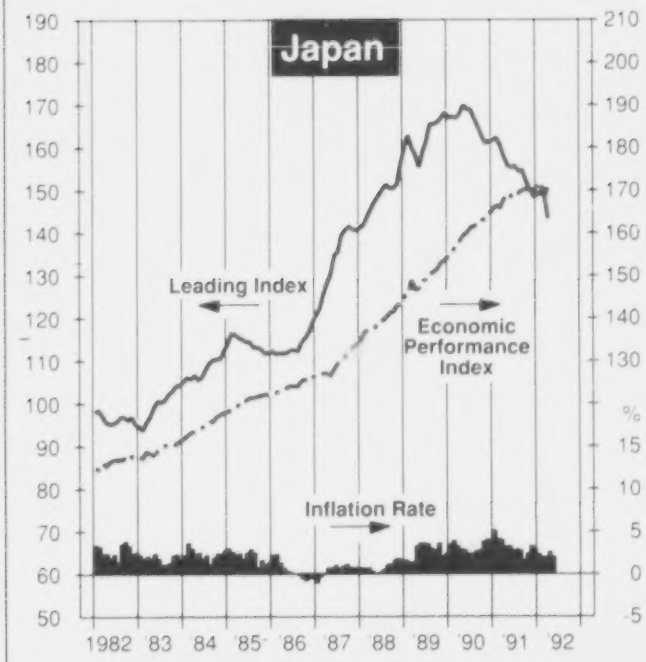
The leading index is on the upgrade, but very slowly. The manufacturing workweek has moved up recently, along with common stock prices and profit margins. Housing starts are down, however, and also new construction orders. On balance, therefore, the early moving series are not pointing strongly to an early cyclical recovery. Correspondingly, most forecasts of the U.K. economy call for no growth in GDP for this year.

At 4.3 percent, the British inflation rate has held fairly steady over the past half year.

Doubtful Prospects

In a couple of ways, the Italian economy is having a reasonably good year. The performance index shows that economic expansion continues at a respectable (4 percent) pace. And inflation, 5-1/2 percent, is at its slowest pace since early 1988.

As is so often the case in Italy, however, other important statistics are less encouraging. The leading index has been going nowhere for more than a year, not pointing to a downturn, but raising questions about the staying power of the respectable growth rate. The government budget deficit is projected at more than 11 percent of GDP. And the Bank of Italy recently raised its discount rate to 13.75 percent—a dramatic eight and a quarter percentage points above the inflation rate. Evidently many investors are doubtful about prospects for the Italian economy.

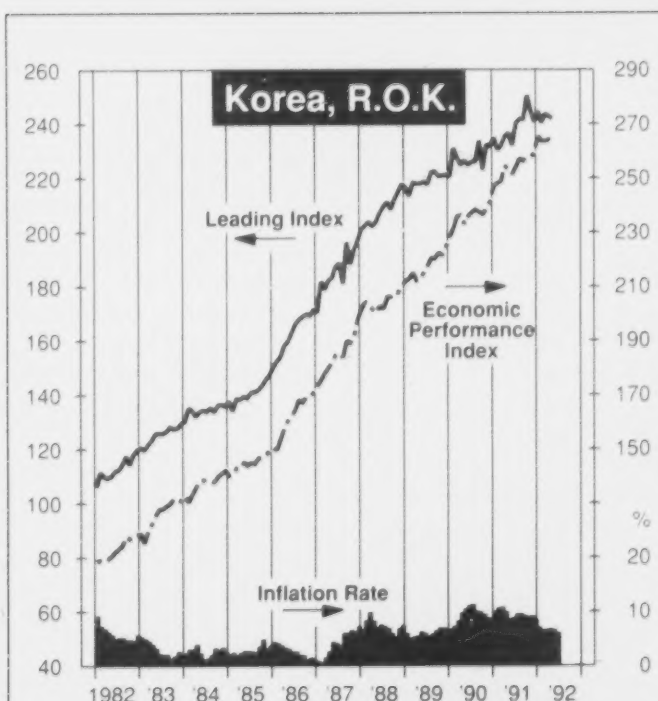


Another Plunge For The Leaders

Questions about the Japanese business cycle are as pressing as ever. Industrial production has fallen sharply, but otherwise the broad measures of Japanese economic activity, including the performance index charted here, show no actual downturn.

The leading index, however, took another big dip at the latest reading. The component series that make up the index are almost unanimous in sending negative signals, including especially the stock market (see page 4). Most forecasts for 1992 show GDP growing at 2 or 2-1/2 percent, but the abundance of pessimistic signals makes it difficult to believe that the downturn can be limited to the industrial sector of the economy.

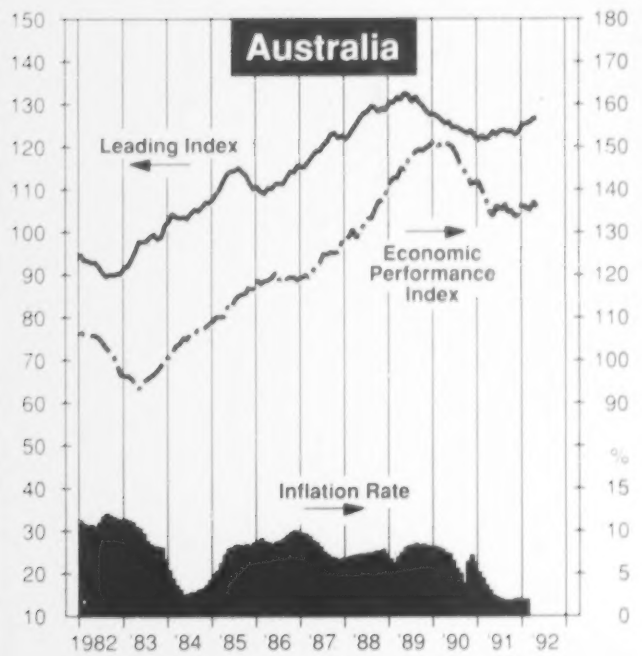
Not surprisingly, inflation remains very subdued.



Cyclical Doubt

The Korean indexes have, just very recently, begun to cast doubt on prospects for continued cyclical expansion. The leading index has leveled off since late last fall, and the performance index now shows a similar pattern starting in February.

One source of restraint is the nation's central bank, which recently responded to above-target monetary growth by tightening liquidity conditions. Although inflation has been slowing of late, it remains at 5.8 percent at latest reading.

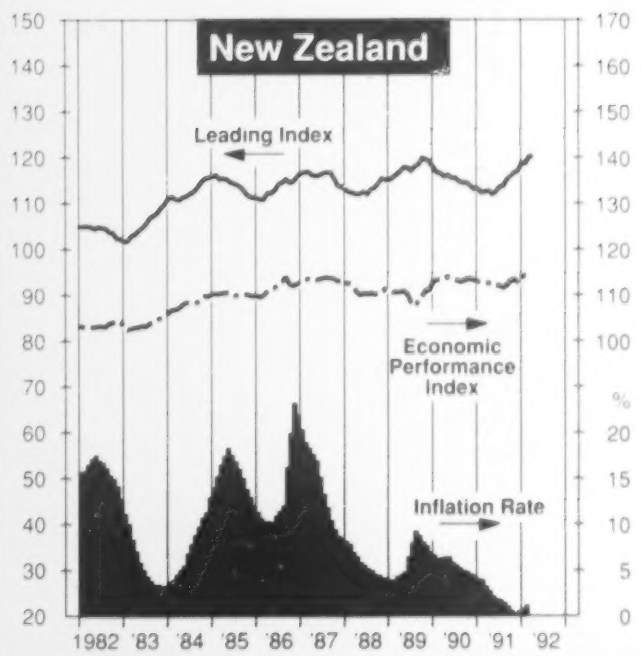


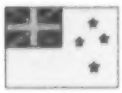
Better News, At Last

The Aussie economy is still near the low point of its long recession, but the cyclical indexes suggest an upswing is getting underway. The leading index has been rising slowly for more than a year. And the performance index, after bouncing around the bottom for most of 1991 now seems to be moving gradually higher.

This prospect is consistent with the consensus forecast for the Australian GDP, which calls for 1992 growth between 2 and 2-1/2 percent. At this pace, however, it will be a good while before much headway is achieved in reducing the present 11 percent unemployment rate.

A more encouraging statistic is the low and stable 1.9 percent inflation rate.



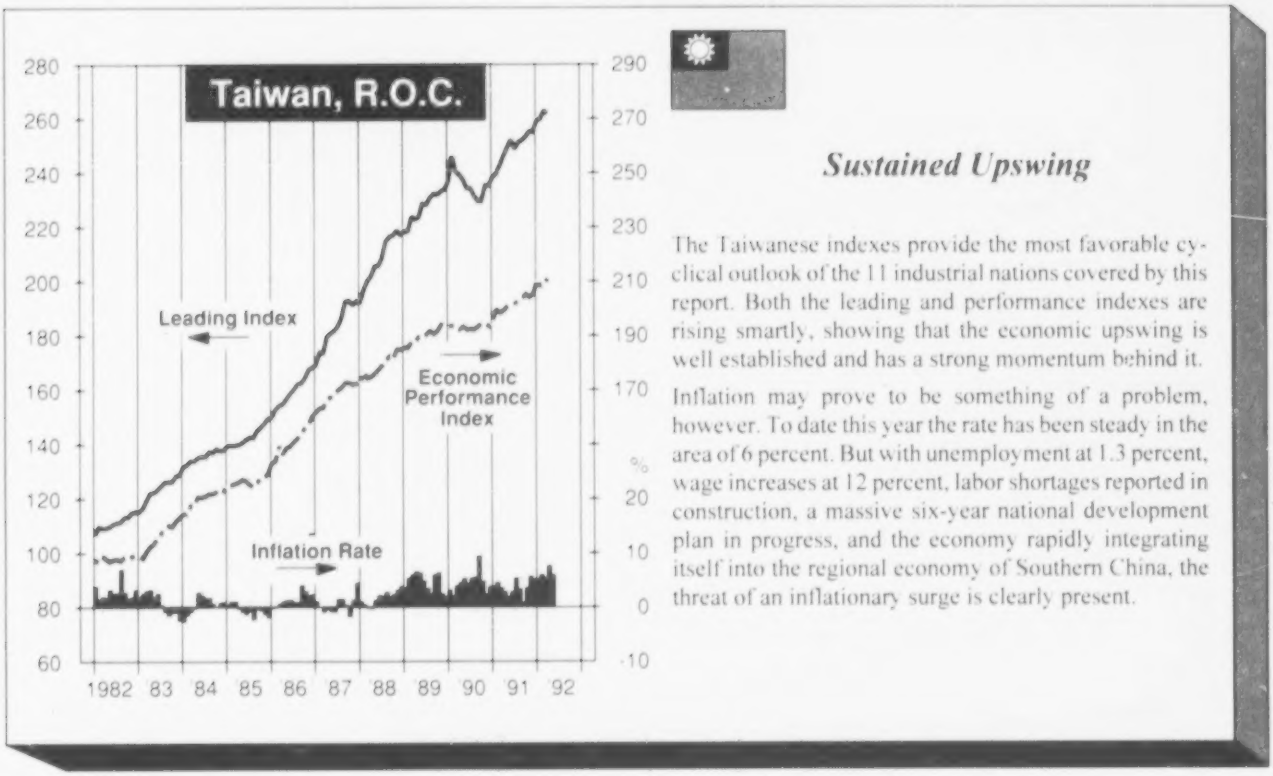


Slow Recovery Indicated

The Kiwi leading index has been fairly decisive in pointing toward an economic upswing since early summer 1991. In recent months the improvement has been led by residential and nonresidential building permits.

Not much action is to be found, however, in the economic performance index, although slow gains are indicated for the latest few months. This rise is consistent with the consensus forecast of 2-1/2 to 3-1/2 percent GDP growth in 1992.

The inflation rate is very low—1.1 percent—and with unemployment high and likely to remain so for some time, there's little worry that inflation will become troublesome again soon.



Sustained Upswing

The Taiwanese indexes provide the most favorable cyclical outlook of the 11 industrial nations covered by this report. Both the leading and performance indexes are rising smartly, showing that the economic upswing is well established and has a strong momentum behind it.

Inflation may prove to be something of a problem, however. To date this year the rate has been steady in the area of 6 percent. But with unemployment at 1.3 percent, wage increases at 12 percent, labor shortages reported in construction, a massive six-year national development plan in progress, and the economy rapidly integrating itself into the regional economy of Southern China, the threat of an inflationary surge is clearly present.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This publication is designed to help readers monitor the ups and downs of the business cycle around the world. To this end, three statistical series are shown for each country. One is the inflation rate, calculated from the consumer price index compiled by the official statistical agency. The other two are cyclical indexes—an index of economic performance and a leading index. All of the cyclical indexes are based on 1980=100. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call "coincident" series, because they define the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too — typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see Phillip A. Klein and Geoffrey H. Moore, *Monitoring Growth Cycles in Market-Oriented Countries*, Ballinger Publishing Co. 1985.) Considerable variation in the length of the lead is to be expected, however. Constant monitoring is needed to make effective use of the system and to get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

The indexes were developed by Geoffrey H. Moore and Phillip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. indexes used here differ slightly from the indexes reported monthly by the U.S. Department of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates are equal to those in real GNP in the country concerned. Growth rates are shown in the first column of the table on page 2.

For more information:

For more about this indicator system and the availability of detailed data for each country please address inquiries to: Center for International Business Cycle Research, Columbia Business School, New York, NY 10027 - Telephone: 212-280-2916.

INDEXES, WORLDWIDE AND BY REGION, 1990-92

		11 Countries		10 Countries excl. U.S.		North America (2)		Europe (4)		Pacific Region (5)		11 Countries		10 Countries excl. U.S.		North America (2)		Europe (4)		Pacific Region (5)	
		Indexes, 1980=100										Growth Rates, Percent									
		Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead
Jan	91	136	136	145	138	123	132	134	125	166	162	0	-4	4	-2	-7	-6	4	0	5	-4
Feb	91	136	136	145	138	122	132	134	125	167	162	-1	-3	3	-2	-7	-5	3	0	5	-3
Mar	91	136	136	146	138	121	132	134	126	166	161	-1	-3	2	-2	-7	-5	3	1	4	-4
Apr	91	136	136	146	138	122	133	134	126	168	159	-1	-2	3	-2	-6	-3	2	1	4	-6
May	91	136	137	146	137	122	134	134	126	169	158	0	-2	3	-2	-5	0	2	1	5	-7
June	91	136	137	146	137	122	136	135	127	169	157	0	0	2	-2	-4	2	2	2	4	-6
July	91	137	138	147	138	122	137	135	127	170	158	1	1	3	-1	-3	4	2	2	4	-5
Aug	91	137	138	147	137	122	138	134	127	170	157	0	2	2	-1	-2	5	1	2	4	-5
Sept	91	137	138	147	137	122	138	134	127	170	157	0	2	2	-1	-1	6	0	1	4	-4
Oct	91	137	138	147	136	122	139	135	126	170	156	1	2	2	-2	-1	7	1	1	3	-5
Nov	91	136	138	147	135	122	139	135	126	170	154	0	1	1	-3	-1	6	0	0	2	-6
Dec	91	136	137	146	135	121	139	134	126	170	152	0	0	0	-3	1	5	0	0	2	-7
Jan	92	137	139	148	135	121	141	135	127	171	153	1	2	2	-2	-1	7	1	1	3	-6
Feb	92	137	140	148	136	122	142	136	128	172	153	1	3	2	-1	0	8	1	2	3	-4
Mar	92	137	140	147	136	122	142	135	128	169	153	0	2	0	-1	0	7	1	2	0	-4
Apr	92	137	139	148	135	122	143	136	128	171	148	1	1	2	-3	0	6	2	2	2	-8
												Ten Year Annual Growth Rate, Percent									
												3	3	3	3	3	3	2	2	4	4

INDEXES, ELEVEN COUNTRIES, 1990-92

		United States		Canada		West Germany		France		United Kingdom		Italy		Japan		Korea, R.O.K.		Australia		New Zealand		Taiwan, R.O.C.	
		Indexes, 1980=100																					
		Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead	Perf	Lead
Jan	91	122	134	128	114	133	134	150	130	126	114	122	114	166	162	247	235	142	122	113	113	196	239
Feb	91	121	134	127	112	133	134	150	130	125	114	122	115	166	162	248	231	140	122	112	112	200	240
Mar	91	121	134	127	114	134	134	150	132	125	115	123	115	166	161	249	232	138	122	112	112	199	243
Apr	91	121	135	128	115	134	133	151	133	124	115	121	116	168	158	255	236	135	122	112	112	199	246
May	91	121	136	128	117	134	133	151	133	123	116	122	116	169	156	253	237	136	123	112	112	201	249
June	91	122	137	128	117	135	134	152	135	124	115	123	116	169	156	252	232	136	123	112	112	202	252
July	91	122	139	128	118	135	134	153	136	123	116	123	116	170	156	254	241	134	124	112	113	202	249
Aug	91	122	140	128	118	133	134	153	136	123	115	123	115	170	155	257	242	137	124	111	114	203	251
Sept	91	122	140	129	117	133	134	153	135	122	115	122	115	170	155	256	242	134	123	112	115	204	252
Oct	91	121	141	128	116	134	133	154	135	122	115	123	115	170	152	257	251	135	124	113	116	205	254
Nov	91	121	142	128	115	133	133	154	134	122	115	124	115	170	150	258	245	133	123	113	116	204	255
Dec	91	121	142	128	115	133	133	153	133	121	115	122	115	170	149	260	241	134	123	112	117	205	255
Jan	92	121	143	128	116	135	134	154	134	121	115	123	116	171	149	266	245	137	125	114	118	210	260
Feb	92	121	145	128	117	135	135	154	135	122	116	125	116	172	150	264	240	135	125	114	118	208	260
Mar	92	121	145	128	117	134	134	153	137	121	115		116	169	149	264	244	135	126	114	120	209	263
Apr	92	121	145	128	116	134	134	155	137	122	117		116	171	143	264	243	137	126		120	211	262
May	92	121	146													264	242	136	127				
		Growth Rates, Percent																					
Jan	91	-7	-6	-7	-6	8	4	5	-1	-3	-4	4	-3	7	-5	9	6	-7	-4	-1	-4	3	2
Feb	91	-7	-5	-7	-9	7	4	3	0	-4	-4	2	-2	6	-4	8	1	-8	-2	-1	-4	6	3
Mar	91	-7	-4	-7	-6	6	3	3	2	-4	-2	3	-1	5	-5	8	3	-10	-3	-1	-4	4	6
Apr	91	-6	-2	-5	-2	6	2	3	3	-5	-2	0	1	6	-7	11	6	-12	-2	-1	-3	5	8
May	91	-5	0	-3	1	6	1	2	3	-5	-1	2	1	7	-9	9	6	-10	0	-1	-3	6	10
June	91	-4	1	-3	2	5	1	3	5	-4	-1	3	1	5	-8	6	1	-8	0	-2	-2	6	12
July	91	-3	4	-2	3	4	1	4	6	-4	1	2	2	6	-7	7	8	-9	1	-2	0	5	8
Aug	91	-2	5	-2	3	1	1	4	6	-4	0	2	0	4	-7	8	8	-4	2	-2	1	5	9
Sept	91	-2	6	0	2	1	1	3	4	-4	-1	0	0	4	-6	6	6	-6	1	-1	3	6	8
Oct	91	-1	7	0	0	1	-1	4	3	-4	0	2	0	4	-7	6	13	-4	1	1	5	6	8
Nov	91	-1	7	0	0	0	-1	3	1	-3	0	2	0	3	-9	5	6	-5	0	1	6	4	8
Dec	91	-2	6	0	-1	0	-1	2	0	-4	-1	-1	0	2	-9	5	2	-4	1	0	6	4	6
Jan	92	-1	8	0	0	1	0	2	1	-3	0	1	1	3	-8	9	5	1	3	2	8	8	8
Feb	92	0	8	0	2	2	2	2	2	-2	2	4	1	3	-6	6	1	0	3	3	7	5	7
Mar	92	0	7	-1	2	0	1	1	4	-2	0		0	-1	-6	5	3	0	4	2	8	5	8
Apr	92	0	6	-1	-1	0	1	3	3	-1	2		0	1	-11	5	1	3	4		8	6	6
May	92	0	6													3	0	0	4				
		Ten Year Annual Growth Rate, Percent																					
1976-86		3	3	3	3	2	2	2	2	2	2	2	2	4	4	7	7	3	3	2	2	8	8